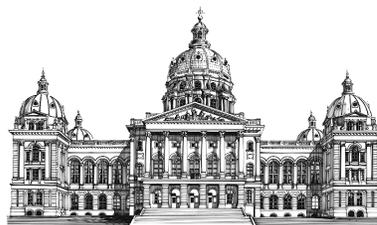

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Iowa Finance Authority Housing Loan Programs

ISSUE

This *Issue Review* examines the Housing Assistance Fund and the First-Time Home Buyers Mortgage Loan Programs in regard to loan payment delinquencies and defaults.

AFFECTED AGENCIES

Iowa Finance Authority

CODE AUTHORITY

Sections 16.20 and 16.100, Code of Iowa

BACKGROUND

The Iowa Finance Authority (IFA) offers two programs that are directly involved in making housing loans to low- and moderate-income families in Iowa: the Housing Assistance Fund Program and the First-Time Home Buyer Mortgage Loan Program. These two Programs operate differently, and loan delinquencies and defaults have different implications for each Program.

The Housing Assistance Fund Program, which began in 1989, makes loans for a variety of housing projects, programs, and activities with the goal of providing “decent, safe, and affordable housing for limited income persons.” The Program seeks to provide financial assistance for creative and innovative housing projects. The Program loan arrangement is intended to “maximize the leveraging of other resources and to minimize the need for program funds.” As a result, the Authority’s funds are directly invested in the housing projects. Examples of the projects include loans for multi-family apartment units for low- to moderate-income families and apartment complexes for elderly tenants. Typically, the Authority does not hold the first mortgage on these properties, and its funds can be at risk in case of loan defaults.

The First-Time Home Buyer Mortgage Loan Program (also called Iowa FirstHome) assists first-time homebuyers to obtain below-market interest rates on their mortgage loans. The Authority issues bonds to obtain funding for the Program. These proceeds are made available to participating lenders (financial institutions) to fund the homebuyers’ loans. The lenders follow underwriting guidelines and evaluate the credit-worthiness of the borrower.

Typically, these loans are sold on the secondary market, such as Fannie Mae, and the Authority is not at risk for loan defaults.

CURRENT SITUATION

Housing Assistance Fund. The Authority began tracking loan defaults for both Programs in FY 2000. The Housing Assistance Fund Program currently has \$8.7 million in outstanding loans. In FY 1999, the Authority awarded \$1.5 million in grants and loans to 25 projects. The Program was suspended in FY 2000 for a comprehensive review. **Table 1** shows the history of loan defaults.

By August 2000, five loans had reached the foreclosure stage, and a sixth loan was 17 months

Table 1
Housing Assistance Fund Loan Delinquencies

	Amount Due (Excludes Foreclosures)	Outstanding Balance	Total Outstanding Loans	Months Late			Fore- closures	Total Loans
				One	Two	Three		
November-99	\$ 19,705	\$ 748,814	\$ 8,922,542	3	5	2	0	128
December-99	105,696	794,990	8,841,222	5	2	6	0	128
January-00	129,542	615,543	8,796,326	10	4	3	1	127
February-00	57,556	1,088,959	8,745,782	2	6	5	1	127
March-00	34,061	900,460	8,927,603	2	0	5	3	129
April-00	28,439	621,808	8,877,103	1	0	2	3	129
May-00	25,913	530,569	8,915,489	0	0	2	3	128
June-00	39,933	726,056	8,795,032	3	0	2	3	127
July-00	35,355	658,724	8,761,305	1	2	2	3	127
August-00	49,827	594,621	8,707,044	0	0	1	5	127
Average	\$ 52,603	\$ 728,054	\$ 8,828,945	3	2	3	2	128
Percentage				2.11%	1.49%	2.35%	1.72%	7.67%

delinquent. The Authority reports that when the financial institution (primary lender) initiated foreclosure procedures, the Authority entered into the foreclosure to preserve its interest in the loan.

Four of the five loans were to Centerville Partners, L.P. (\$150,000 for a 50-unit apartment project in Centerville), River West Apartments, L.P. (\$75,000 for a 30-unit apartment project in Milford), Newton Partners, L.P. (\$135,000 for a 54-unit apartment project in Newton), and Postville Partners, L.P. (\$108,000 for a 36-unit apartment project in Postville). The Authority did not hold the first mortgage on any of these loans. The principals for these four companies were the same individuals – Gary Baumgart, Walter F. Schroeder, and David Brodsky. The other loan in foreclosure was to Perry Partners, L.P. (\$60,000 for a 30-unit apartment complex). The principals for this company are Dale V. Nelson and Sarah M. Nelson. Information presented at the October Iowa Finance Authority Board meeting indicated the projects were having cash flow problems due to the apartments not being rented.

Since that time, the Authority has indicated the issues for the six projects are being resolved and the foreclosures are not expected to proceed. In some cases, the bank making the construction loan has opted to provide permanent financing, and new management will administer the properties. Other projects are being sold, and new management is anticipated to resolve the

delinquency. The Authority also has indicated they will be implementing underwriting standards for the Program to avoid funding future projects that are likely to have cash flow problems.

First-Time Home Buyer Mortgage Loan Program (Iowa FirstHome). The First-Time Home Buyer Mortgage Loan Program began financing home mortgage loans in 1987. The Program has assisted 6,500 homebuyers to obtain mortgages totaling \$266.4 million. The average home purchase price over the 13-year period was \$46,000 with an average borrower annual income of \$27,000. In FY 1999, 322 homebuyers were assisted in obtaining mortgages valued at \$15.6 million. The average home purchase price was \$51,000, and the average borrower's annual income was \$29,000. **Table 2** shows the pattern of delinquencies and defaults for First-Time Home Buyer loans:

Table 2
Number of First-Time Home Buyer Loan Delinquencies

	One Month		Two Months		Three Months		Foreclosure		Total		Total Loans
	No.	%	No.	%	No.	%	No.	%	No.	%	
July-99	152	3.7%	27	0.7%	17	0.4%	8	0.2%	204	5.0%	4,101
August-99	135	3.3%	28	0.7%	12	0.3%	14	0.3%	189	4.6%	4,083
September-99	135	3.3%	28	0.7%	18	0.4%	12	0.3%	193	4.7%	4,082
October-99	134	3.3%	36	0.9%	15	0.4%	12	0.3%	197	4.8%	4,068
November-99	136	3.4%	37	0.9%	17	0.4%	14	0.3%	204	5.1%	4,025
December-99	151	3.8%	33	0.8%	19	0.5%	14	0.3%	217	5.4%	4,019
January-00	143	3.6%	28	0.7%	21	0.5%	14	0.4%	206	5.2%	3,991
February-00	117	2.9%	40	1.0%	19	0.5%	13	0.3%	189	4.8%	3,974
March-00	119	3.0%	26	0.7%	15	0.4%	12	0.3%	172	4.3%	3,970
April-00	129	3.3%	40	1.0%	10	0.3%	13	0.3%	192	4.9%	3,937
May-00	127	3.3%	45	1.2%	16	0.4%	10	0.3%	198	5.1%	3,894
June-00	144	3.7%	35	0.9%	19	0.5%	13	0.3%	211	5.5%	3,850
July-00	137	3.4%	29	0.7%	19	0.5%	17	0.4%	202	5.1%	3,982
August-00	151	3.7%	31	0.8%	18	0.4%	14	0.3%	214	5.3%	4,069
Average	136	3.4%	33	0.8%	17	0.4%	13	0.3%	199	5.0%	4,003

Table 2 shows that most delinquent loan payments are one month old. By the second month, about three-fourths of the delinquencies have been resolved. An average of 0.3% of the loans are in foreclosure.

BUDGET IMPACT

The way the Programs handle loans leads to different budget implications. For the Housing Assistance Fund Program, the loans are made to businesses and individuals for projects to improve the housing stock. Typically, the loan is secured by the property, but the Iowa Finance Authority does not hold the first mortgage. If the business or individual defaults on the loan, the Authority can be in a position to lose part or all of the investment. The Authority has indicated it will reduce its risk by implementing standard underwriting procedures for these loans.

The First-Time Home Buyer Loan Program does not have the same exposure to loan defaults. Since the loans flow through an established lender and most loans are packaged and sold on the secondary mortgage market, the Authority is not at risk in case of loan defaults. In the long term, if these loans have high default rates and reduce the returns for investors and lenders, then they

could become less attractive investments and require greater returns for investors to offset the risk. This would in turn create greater costs for the Authority to find lenders and to sell the loans on the secondary market.

The Legislature may want to continue to monitor both Programs to see how the Iowa Finance Authority improves underwriting and other project selection procedures for the Housing Assistance Fund Programs and to see how the First-Time Home Buyers Loan Program continues to perform.

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